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Fertilizer subsidy scheme in Sri Lanka in 1952 and continued until it was abolished in 198. The scheme was restored in 1994. All major fertilizers were subsidized until 1997. At present the subsidy is give only for urea. Almost all the fertilizer requirement in Sri Lanka is imported. Urea accounts for more than a half of all imported fertilizer.

Private sector dominates in the industry. Importers operate their own networks for distribution of fertilizer. Rate of subsidy is decided by the National Fertilizer Secretariat, the state agency responsible for implanting the subsidy program, after negotiations with importers. The purpose of this study was to examine the implications of fertilizer subsidy scheme on its three major stakeholders, traders, the government and farmers.

The study indicates that as subsidy rates are determined according to the importers' cost structure, a substantial amount of subsidy passes to traders through the process of price determination. Furthermore, margins of traders have increased recently. Actual government expenditure for the fertilizer subsidy in recent years is more than Rs. 2.5 billion. This exceeded the budgetary allocation of Rs 1.5 billion. Thus, despite the removal of subsidy in fertilizers other than urea, the government's burden on fertilizer subsidy has not been eased substantially.

The world market price and as a consequence the import prices of urea has reduced to a half of its previous value. The farm-gate price of urea has remained constant. The protection provided to farmers through the scheme is decreasing. Although national level figures show high levels of urea consumption, district level figures prove that its use is inadequate in some districts, this study concludes that as a larger share of benefits is passed on to the importers, urea subsidy has given little consolation to the farmer under the present situation.